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SUBJECT: The Japan Economic Scope Q- Economic News At-A-Glance.

Sensitive but unclassified. Please protect accordingly.

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2. (U) The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the October 27, 2006, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.

3. (SBU) Keidanran Signals Renewed Opposition to Foreign Triangular Merger

According to recent media reports, Keidanren is

gearing up to oppose GOJ plans to finalize rules allowing foreign triangular mergers.

In an October 20 Yomiuri article, Keidanren VP Miyahara is quoted as saying the Federation is urging the GOJ to adopt "stricter" regulations of mergers using foreign stock, specifically asking that stocks used must be listed on Japanese exchanges.

METI officials responsible for promoting investment met with Embassy officials on October 23 to express their concerns about this development and urge us to lobby Diet members and LDP officials more actively.

METI met separately with EU diplomats and U.S. and European business groups to deliver the same message.

Embassy is coordinating with the American Chamber of Commerce Japan (ACCJ) and EU colleagues on an advocacy strategy emphasizing the damage to Japan's FDI climate if Keidanren's proposal is accepted.

We will also raise this as our top agenda item at the next bilateral Investment Working Group meeting set for October 31.

ACCJ and the European Business Council issued a strongly worded joint press statement on October 27 opposing Keidanren's position (see: <http://www.accj.or.jp/>).

14. (U) Japan Ag: More Talk About Reform

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According to press reports, some members of Prime Minister Abe's Council on Economic and Fiscal Policy (CEFP) are clamoring to break up elements of Japan Agriculture (JA), the pillar of the country's protectionist farm sector.

An unidentified Council member told reporters that he would favor breaking off JA's banking and insurance businesses from its other more traditional agriculture cooperative services, including marketing of agriculture products and sales to farmers of material and equipment.

The banking and insurance businesses make money for JA and in effect cross-subsidize some of its other activities.

There has been talk of such reform in the past, but little progress to show for it. Restructuring JA would be touching a third rail for LDP politicians -- many of whom have made careers out of pandering to farm sector interests.

When asked by reporters about the anonymous suggestion to restructure JA, new Agriculture Minister Toshikatsu Matsukoka showed little stomach for pushing sweeping reforms, claiming to be more interested in "streamlining" JA's inefficient distribution system.

The success of the ruling coalition last year in passing land mark postal privatization reform, however, may have prompted the CEFP member's apparent trial balloon on JA restructuring at this time. A CEFP member EMIN talked to October 20 underscored his desire to see the Council play an active role continuing to push a reform agenda.

15. (U) Unblocking Beef in Japan's Pipeline

After getting the green light from the ruling Liberal Democratic Party in the Diet, the GOJ is set to resume import processing of the U.S. beef held up in the import pipeline since January.

Agriculture Minister Toshikatsu Matsuoka declared last week that the U.S. beef in question, over 900 tons, will be processed beginning October 27 and take several weeks to complete.

The Embassy has worked extensively with GOJ authorities to free up the shipments.

According to terms of the decision to allow the beef in, all boxes will be opened to see that no specified risk material -- banned under the bilateral agreement -- are included.

A U.S. exporter told us on October 22 he welcomed the decision, which he suggested could help raise consumer confidence.

Also see: MAFF's Japanese press release on this subject

16. (U) Japan's Annual Southern Bluefin Tuna Catch Halved

At the 13th meeting of the Commission for the Conservation of Southern Bluefin Tuna held October 10-13, Japan accepted a reduction in its annual fishing quota of southern bluefin tuna due to the Commission's conclusion that Japan had been overfishing the tuna for years.

The Panel is said to have estimated the total

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overcatch at 178,000 MT over the past 20 odd years.

The new annual quota for Japan will be down by half to 3,000 metric tons and will be applied for five years from 2007.

A longer report will be available on the FAS website.

17. (SBU) Azadegan: EMIN Calls on METI, MOFA to Discuss Contract Change

EMIN met with METI Agency for Natural Resources and Energy Director General Harufumi Mochizuki and MOFA Deputy Director General for Middle Eastern Affairs Hideki Ito on October 13 and October 20 respectively to discuss the change in status of Japan's oil major Inpex vis-à-vis the Iranian oil field Azadegan.

For a complete readout of these two meetings, see Tokyo Cables 6074 and 6160.

18. (SBU) Sakhalin 2 Partner Confident Project Will Not Be Canceled

Former Japanese Ambassador to Russia Takehiro Togo, currently senior counselor at Mitsui and Co., which is part of the Sakhalin 2 consortium, told Econoff on October 17 that the Russian government had no desire to pull the plug on the Sakhalin 2 project despite environmental concerns surrounding it.

The Russian government was currently pursuing a number of natural resource investigations, not just Sakhalin

12. Togo suggested that talks between Royal Dutch Shell and Russian oil major Gazprom over swapping

shares in different projects were not going well and that may have played a role.

He strongly suggested that the inclusion of Gazprom in the consortium would benefit all concerned while noting Russian government concern over the ballooning cost of the project.

Togo also highlighted the mutually beneficial relationship of Russia and Japan in the energy field.

For a complete readout of this meeting, see Tokyo [16163](#).

[19](#). (U) Kyushu Making Biomass Environmental Friendly Ahead of New Restrictions

The southern Kyushu prefectures of Miyazaki and Kagoshima are among Japan's top three producers of cattle, pigs, poultry, and shochu (a distilled spirit made out of sweet potato, rice or barley). For years, the resultant livestock and shochu waste was left untreated and disposed of to the point where it began to contaminate local ground water sources. In an effort to reduce these industries' environmental impact and take advantage of financial incentives for recycling, various local companies began converting the biomass waste into energy and animal feed.

Two Miyazaki facilities generate electric power from poultry manure produced in the prefecture. A small portion of this electric power is used to operate the plants, and the surplus is bought by Kyushu Electric Power Company.

In addition, a consortium of industry, academia and government agencies in Miyakonojo City is developing an incinerator that will use pig excrement and waste wood to generate heat for the drying of locally harvested timber. This pilot program is not expected

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to become operational for at least two years, and there are currently no plans for recycling waste from cattle.

The local shochu industry, 90 percent of which is produced from sweet potato, has traditionally discharged shochu lees directly into the ocean or sprayed the waste as fertilizer for farming. Approximately 90 percent of Japan's shochu distillery waste is generated in southern Kyushu, and Kagoshima prefecture, the country's largest shochu producer, continues to release one-third of its shochu waste directly into the ocean.

Although Japan has yet to become a party to the London Convention, starting April 1, 2007, the Ministry of Environment will prohibit the discharge of shochu lees and other waste into the ocean as preparation for possible future accession to the protocol.

In response to the Ministry of Environment's pending restrictions as well as the increased amount of waste generated due to the "Shochu Boom," several manufacturers are now recycling waste products derived from fermenting shochu.

Miyazaki's largest shochu producer, Kirishima Shuzo Co., is utilizing sweet potato shochu waste to produce dry livestock feed. In addition, Mitsui Engineering & Shipbuilding of Tokyo recently announced plans to build a plant in Miyazaki prefecture for the recycling of shochu lees into animal feed and ethanol fuel. Upon completion of the plant next March, the company

expects to receive orders worth 1.2 billion yen from a cooperative of five local shochu distillers.

¶10. (U) Mutual Recognition Agreement Talks Resume in Tokyo

After an almost one-year pause, talks on a Mutual Recognition Agreement on testing of telecommunications equipment restarted in Tokyo on October 19. While few substantive issues remain, the negotiating team, lead by Deputy Assistant U.S. Trade Representative Jonathan McHale, expects it will still take some time to finalize an agreed text. Both sides anticipate that they will need to follow up this week's meetings with videoconferences.

Director of the Foreign Ministry's 2nd North American Division, Koichi Mizushima stated at the start of the talks that the GOJ would like to have the agreement signed before the end of the year and submitted to the Diet before the end of their fiscal year in March ¶2007. Before the agreement can be signed, the GOJ needs to translate the agreed text into Japanese, which will become the official text for the GOJ. The Cabinet legislative office also needs to go over the agreed text to ensure consistency with previous conventions and treaties. In turn, the State Department will have to take the official Japanese text, translate it back into English, and certify the text. On the U.S. side, the agreement will take effect after an exchange of letters.

¶11. (U) Wal-Mart Makes A Go Of It In Japan

In August 2006, Wal-Mart's Japanese subsidiary announced an operating loss of US\$465 million for the first six months of 2006, a fivefold jump over first half 2005. The company attributed the losses to one-time write-offs for assets and cited same-store sales increases of 1.4 percent as proof it will succeed in the market long-term.

The largest retailer in the world (its retail sales

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compared on a GDP basis would rank it #21 behind Sweden and ahead of Saudi Arabia), Wal-Mart entered Japan in 2002 when it purchased a 42 percent stake in Japanese retailer Seiyu. It has since increased its share to 53 percent.

Despite the losses, Wal-Mart continues to invest in the market and recently opened a Distribution Center (DC) that combines Wal-Mart know-how with Japanese technology to address business and logistical challenges particular to Japan. Built on three stories and consisting of 514 thousand square feet, the DC is one-of-a-kind in the Wal-Mart system. Company officials showcased the distribution center for EMIN during his recent tour.

It remains to be seen, however, whether the facility will help Wal-Mart Japan to realize the efficiencies needed to achieve its "Every Day Low Price" strategy.

For more information, see Tokyo 06175.

¶12. (SBU) Motion Picture Association Chairman Dan Glickman Visits Japan

Motion Picture Association (MPA) Chairman Dan Glickman told an anti-piracy seminar this week that losses due to piracy in Japan reach hundreds of millions of

dollars mainly from peer-to-peer (P2P) piracy and illegal file exchange over broadband internet sites.

There are also increasing numbers of cases of criminals camcording movies inside theaters in Japan, copies of which are then illegally distributed through internet file exchange networks or sold in open-air markets as pirated DVDs.

MPA submitted a statement to the GOJ asking for changes in copyright laws to make camcording in theatres illegal.

Glickman and other seminar participants also called for changes in Japanese laws which make uploading but not downloading copyrighted materials a crime and allow an exception for "personal use."

Nonetheless, Glickman told the Ambassador that problems in Japan pale compared to the situation elsewhere in Asia.

He praised METI and JETRO funding for IPR enforcement training for Chinese officials and would like the Japanese to continue and expand its' training programs to other countries.

Glickman lauded Japanese solidarity with the USG and Switzerland in its Article 63 request to China at WTO in 2005.

Glickman criticized USTR for plans to pursue a narrow case against China at the WTO and called for a more comprehensive approach.

Glickman told Ambassador Schieffer that Japan is #2 market in the world (after the U.S.) for box office receipts and #4 if DVDs and videos are included.

This is remarkable considering that Japan has only about 3000 screens (compared to 37,000 in the U.S.) and people attend only 1 movie a year on average in Japan (vs. 5 in the U.S.) and underscores that the price of admission is very high here (usually 1800 yen).

Of over 16 billion dollars in gross box office receipts in Japan in 2005, about 60% came from foreign films, predominantly American movies.

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¶13. (SBU) Labor Legislation Slated for 2007 Diet Despite Little Progress in Negotiations

Current efforts to foster labor mobility in Japan are centered around two pieces of legislation: a new Labor Contracts Law and a revised Labor Standards Law.

An advisory committee to the Ministry of Health, Labor, and Welfare continues to prepare the legislation with the goal of submitting it to the regular 2007 Diet, but a contact on the committee told us that the labor and employer positions on key provisions -- including creating a white-collar exemption from overtime and a provision for monetary compensation in lieu of re-instating employees who have disputed dismissal -- remain distant and entrenched.

Tokyo 6250 (classified) gives a detailed readout of the situation and its political context.

¶14. (SBU) A380 Unlikely to Have Large Impact on Japanese Airports

U.S. Government Accountability Office (GAO) Physical Infrastructure specialists visited Tokyo October 4-6 to discuss various topics related to the introduction of the Airbus 380 operations.

Officials from the Japan Civil Aviation Bureau's (JCAB) Construction, Airworthiness, Air Traffic Control, International Air Transport, and General Affairs Divisions discussed their role in regulating and certifying the new aircraft, as well as in modifying airport infrastructure and flight operations.

JCAB officials stated that airports such as Tokyo Narita, Nagoya Central Japan (Chubu), and Osaka Kansai anticipate receiving the A380.

As far as airport infrastructure is concerned, runways at these airports meet ICAO standards, but some taxiways must be expanded to accommodate the aircraft.

JCAB admitted that while certain operational restrictions would be imposed on the ground, they do not anticipate significant impact on airspace utilization or capacity at major Japanese airports.

JCAB airports would adhere to the interim flight separation standards set forth by the ICAO.

They believe that initial impact would seem to be minimal, since no Japanese air carriers intend to purchase the A380 in the foreseeable future.

However, officials from Japan Airlines (JAL) told the GAO that they feared the A380 would have a negative impact on JAL's business.

Specifically, they were concerned that the increased time for interim flight separations will cause flight delays and could even affect flight slots.

The officials also wondered if already high airport user and landing fees would be hiked even higher to cover the costs of airport modifications.

JAL said they had not and will not voice these concerns with JCAB as there is no forum to do so and as JCAB has sole decision-making authority.

15. (U) Shimizu Port: 7th Largest in Japan, and Shizuoka Airport Plans

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At the invitation of local officials, Econ Officer visited the Port of Shimizu in Shizuoka Prefecture, located an hour southwest of Tokyo by Shinkansen, on October 13 to receive briefings on the port, view its container operations, and get a general pitch on doing business in Shizuoka prefecture.

Officials from the Chinese, Indian, Philippine, Vietnamese, Canadian, and Burmese embassies or trade offices were part of the tour as were representatives from the Japanese offices of the states of Kansas, Mississippi, and West Virginia.

Shimizu port is the 7th largest in Japan by TEU container volume shipping, some 500,000+ TEUs a year, and it has plans to expand its container capacity. Port officials said it handles on average 5-6 container ships a day. It also has bulk loading and LNG wharfs.

Exports are shipped to 50 ports around the world in Asia, Europe, and North America while South Korea is its leading source of imported containers.

It was the first Japanese port to offer 24 hour service, operates 364 days a year, has lower port fees than the 5 major Japanese ports, is conveniently located mid-way between Nagoya and Tokyo, and is fully compliant with the SOLAS treaty. Japanese customs uses a large X-ray inspection system to inspect containers without opening them.

Shimizu Port was designated a Foreign Access Zone in 1996 and put into operation a facility in 1998 for handling, storing and distributing imported goods.

Major clients who have moved to the area to take advantage of the good distribution network include: Office Depot, Lands End, Herman Miller (MI, USA, office furniture), Porsche, Peugeot, and Molten (rubber products).

Port officials only raised one major problem during the visit: more containers are being exported than imported. Port officials are looking for ways to increase imports to address the imbalance.

In Q&A, local officials discussed plans for the Shizuoka airport, scheduled for opening in March 2009. The officials hope to use the single 2,500m runway to connect to airports in Japan, China, Korea, SE Asia, Guam, Saipan, and Honolulu.

The Shinkansen line passes under the airport and the Prefectural government intends to build a station making it the only airport in Japan with a direct connection to the train.

See also: Port of Shimizu website; Shizuoka airport website; and Shizuoka Prefecture website.
SCHIEFFER